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PSC GRANTS RATE INCREASE TO DELTA GAS

Amount is one-third less than company requested

FRANKFORT, Ky. (Nov. 10, 2004) - The Kentucky Public Service Commission (PSC) today granted a rate increase to Delta Natural Gas Company, Inc.

The amount of the increase is \$2.76 million - \$1.52 million less than the \$4.28 million that Delta had requested.

The rate change will increase the average monthly residential bill by \$5.02, or 6.6 percent. This figure reflects the current wholesale cost of natural gas.

The gas rate increase approved for Delta covers only the costs of distributing gas to its customers. The actual cost of the gas itself is unregulated (by federal law), fluctuates with market conditions and is passed on to customers on a dollar-for-dollar basis, with no profit for the gas company.

The new rates increase the monthly minimum residential charge from \$8 to \$9.80. Delta had proposed a \$12.50 minimum charge.

Delta is one of five major local natural gas distribution companies in Kentucky. It serves about 39,700 customers in 23 counties in central and eastern Kentucky.

In an order issued today, the PSC cited several factors that led to a smaller increase than Delta had requested. They included:

- Granting a return on equity of 10.5 percent, rather than the 12.5 percent requested by Delta.
- Reducing Delta's allowable depreciation expenses by a greater amount than the reduction proposed by Delta.
- Not allowing Delta to charge ratepayers for bonuses, stock options and Christmas dinners and gifts given to its board of directors.
- Disallowing the costs of employee gifts, social events, club memberships and expenses incurred by employee spouses.
- Not allowing Delta to charge ratepayers for the costs associated with a program to encourage consumers to purchase appliances that run on natural gas.

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Delta had argued that a number of the disallowed expenses were business costs that could legitimately be assessed to its customers. But the PSC noted in its order that “every valid and necessary business expense should not necessarily be borne solely by ratepayers.”

Because Delta began charging its proposed rates on October 7, as permitted by law, the company will now have to give customers a refund, with interest, of the difference they paid between the proposed rate and the rates granted by the PSC.

The PSC also ordered Delta to:

- Conduct a new depreciation study, either within five years or when it files its next rate case, whichever comes first.
- File, with its next rate case, a thorough analysis and justification of the total compensation provided to its board of directors. The PSC recommended that the study be conducted by an outside party.

Delta’s last general rate increase was granted nearly five years ago, in December 1999.

Today’s order and other documents in the case are available on the PSC Web site. The case number is 2004-00067.

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 115 employees.